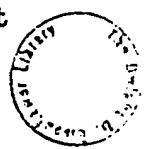


~~SECRET~~COMMENTS ON "THE NATURE AND PROBLEMS OF SOVIET ECONOMIC PENETRATION
IN UNDERDEVELOPED AREAS"

At several points in the paper reference is made to the threat to the industrial economies of Western Europe and Japan that is represented by the entry of the Bloc into the markets of the underdeveloped areas. It is true that the Bloc has the potential for competing in identical markets and this would tend to restrict trading opportunities of free world countries. To the extent, however, that the Bloc is exchanging its goods for otherwise unsaleable surpluses, the economic impact on the free world countries is not harmful, and indeed, might in some circumstances be beneficial. Furthermore, to the extent that Soviet Bloc credits have the effect of expanding the economies of the less developed countries, the result for Japan and the Western European nations could conceivably be, in a net economic sense, desirable.



Thus far the growth of Bloc trade has been too limited for any general judgment. The physical volume of Bloc trade with the free world is not yet back to its 1948 level. If the USSR should decide to expand its trade to the extent that would be economically feasible for it, the Bloc would certainly become a large factor in world markets. The total economic and political impact of such a hypothetical development needs careful examination.

On page 4, it is stated that the "credit program...will impose no net economic burden on the Bloc economy." Since the Bloc economies presumably are operating in full employment situations and striving to achieve rapid industrial and military growth, any net flow of resources from them is likely to impose, for the moment at least, an economic burden. This burden, of course, cannot be great at the present time since the amounts involved are small relative to total Bloc production. Nevertheless, we should recognize that any net flow of resources from the Bloc represents a much greater burden to the USSR than does a similar flow from the United States.

Both in the summary and in the body of the paper it is stated that the Soviets are offering "a stable market" for the primary commodity exports of the underdeveloped countries. Since the Bloc is now in effect re-exporting to the free world some of the primary commodities they are buying, the Bloc to that extent is acting merely as a broker. In the past, Soviet trade has been notoriously erratic, as witness the experience of Uruguay, Australia and Iran. Third, and most important, it is probably too soon to be sure that the Soviet Bloc has made the basic decision to embark on a permanent expansion of its trade. We agree, of course, that the Bloc has the capability and that it would gain important economic advantages by an increased exchange of capital goods for raw materials and foodstuffs. Whether the USSR really intends to depart to a major degree from its historic emphasis on self-sufficiency remains, however, to be seen.

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Date AUG 1999

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More minor comments are the following: On page 6 "the disappointing effect of US programs...in winning over the countries of the Middle East, South and Southeast Asia" is contrasted with the impact of Bloc aid programs. The subject of what economic aid can and cannot accomplish is far more complex than is suggested by this sentence. US programs have had their difficulties and shortcomings but they have contributed to maintaining the independence of these countries, and this has been the aim of US policy. It is too early to assess the impact of Bloc economic programs.

On page 7 there is a statement that the bulk of the US economic aid is going to "Rhee, Chiang, Japan, and Israel." At the present time no US economic aid is going to Japan and the amounts going to Israel are relatively modest.

One section of the paper might be expanded. This is Section VII, "Problem Posed for the U.S." It is stated that the main threat to the U.S. is political and strategic. However, the substance of this threat is not analyzed. It would be useful to develop more fully the political and strategic consequences of closer economic and cultural relations between the Bloc and the underdeveloped areas.



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